# BUDGET LETTER

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| **SUBJECT:** | CURRENT YEAR AND ONGOING EXPENDITURE REDUCTIONS | **NUMBER:** | 20-37 |
| | | **DATE ISSUED:** | November 3, 2020 |
| **REFERENCES:** | BL 20-08, BL 20-11, BL 20-30 | **SUPERSEDES:** | N/A |

TO: Agency Secretaries
Department Directors
Departmental Budget and Accounting Officers
Departmental Human Resources and Labor Relations Officers
Departmental Business Services Officers
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

**Budget Officers are requested to forward a copy of this budget letter (BL) to departmental Human Resources, Labor Relations, and Business Services Officers.**

The COVID-19 recession has had a severe impact on nearly every aspect of California's economy, resulting in record unemployment while further highlighting long-standing economic inequalities. The state anticipates continued revenue impacts relative to pre-pandemic projections, while at the same time facing substantially increased costs associated with both COVID-19 response efforts and unprecedented wildfire activity. These economic impacts are expected to last for several years, and require immediate actions to reduce costs while maximizing the efficiency of state operations.

Initial actions to reduce costs were outlined in BL 20-11 (Current Year Expenditure Reductions issued on April 30, 2020), which provided direction to departments to limit expenditures and hiring to only those necessary to support core functions, emergency response activities, and the ability to maintain operations in a telework environment. These restrictions and reporting requirements remain in effect. Additional information regarding these limitations is outlined below.

The 2020 Budget Act assumes that a **permanent** 5-percent reduction in most state operations expenditures is implemented no later than July 1, 2021 to realize full savings in the 2021-22 fiscal year. This BL provides additional guidance to departments on achieving these savings.

Specifically, the 2020 Budget Act calls for a number of efficiency measures including:

- **Operational Reductions**—Beginning in 2021-22, and building on the expenditure restrictions of BL 20-11, the multi-year budget forecast assumes savings of approximately 5 percent to most departmental state operations budgets. Accordingly, departments shall begin planning and preparing now to identify potential cost saving measures. While departments have flexibility to identify reductions that best fit their operational and program needs, these savings must be realistic and achievable with full implementation no later than July 1, 2021. This 5-percent reduction is in addition to the employee compensation savings already in effect. **All Executive Branch entities should have a plan submitted to Finance no later than February 1, 2021 using the attached template.** Department-specific savings targets will be provided by your Finance Budget Analyst.

- **State Facilities and Workspace Innovations**—In consultation with the Department of General Services where applicable, departments shall, as appropriate, identify opportunities to reconfigure workspaces and reduce the state's physical footprint by taking into account an ongoing increase in telework, evaluating available space in existing state-owned buildings, and ultimately reducing leased space. Given the complexities involved with these efforts, it may not be realistic to complete these activities by July 1, 2021. Accordingly, departments that intend to include facilities reductions as part of their ongoing reduction plans, but cannot realize those savings by July 1, 2021, may submit a plan that includes "transitional" or one-time savings in the near term followed by longer-term facilities savings. Additionally, departments may find savings in other areas as noted below.

**Options for achieving ongoing savings**

- Reduction of discretionary programs
- Program consolidations
- Reduction of lease space (if part of a department's plan, and to the extent those savings cannot be fully realized in the budget year, departments will need to utilize other options to achieve necessary savings in the near term)
- Permanent reduction in travel (hotel, fuel, meal reimbursements, etc.) through increased use of technology in state programs
- Permanent reduction in various operating costs (less printing, postage, utilities, transit subsidies, etc.) related to increased and ongoing telework
- Permanent reduction in other state operational expenses and equipment (including contracts)

Departments may submit additional reduction ideas (beyond those listed above), **subject to Finance approval**.

The development of a reduction plan is an important opportunity to reassess existing business practices, with a focus on accessibility, transparency and equity to the people served by the state.

## Criteria for evaluating departmental plans

Finance will apply the following criteria when analyzing departments' reduction plans to assess whether all proposed reductions are:

- Consistent with BL 20-30, 2021-22 Budget Policy, released August 10, 2020. Specifically, that the proposal is not contrary to the budget priorities delineated therein: emergency response, promotion of economic recovery by supporting small businesses and job creation, and changes to existing programs or investments that allow California to rebuild its economy with greater equity and climate resiliency.
- Permanent in nature, quantifiable, and achievable by July 1, 2021.
- Consistent with current law and existing labor contracts.
- Legally sound and will not expose the state to litigation.

Departments are encouraged to immediately begin working with their Agency Secretary and Finance Budget Analyst to develop a plan to achieve these savings.

**Process to remove savings from departmental budgets**
Finance anticipates proposing a statewide Control Section in the 2021-22 Governor's Budget. This Control Section will serve as the mechanism to both reflect the statewide savings estimate as part of the Governor's Budget and serve as the mechanism to remove the identified savings from departmental budgets. Once the 2021-22 Budget is enacted, a BL will be issued to describe how items of appropriation affected by the final reduction plans will be revised.

These budgetary savings apply to all entities in the Executive Branch, including Constitutional Officers. As such, each entity is expected to work with their Finance Budget Analyst on their plans in a timely manner. **All entities must have a plan approved by Finance by March 30, 2021.** Failure to submit an acceptable reduction plan, as outlined in the evaluation criteria above, will result in an equivalent reduction to the department's state operations budget as part of the 2021-22 May Revision.

**BL 20-11 expenditure reductions continue to apply**
As previously noted, BL 20-11 provided direction to departments to limit expenditures and hiring to those necessary to support core functions, emergency response activities, and the ability to maintain operations in a telework environment. Agency Secretaries and Cabinet-level Directors were authorized to make exemptions from the prohibitions in BL 20-11 only in the following limited instances:

- Addressing a declared emergency.
- Providing 24-hour medical care.
- Avoiding a significant revenue loss.
- Achieving significant net cost savings.

As noted above, these provisions remain in place. While the provisions of BL 20-11 do not apply to entities of California government not under the Governor's direct executive authority, it was requested that such entities implement similar or other mitigation measures to achieve budget and cash savings. Like the BL itself, the requested participation by those not under the Governor's direct executive authority also remains in effect. **In lieu of weekly reporting required in BL 20-11, exemption reporting will be monthly going forward, with the next report due December 1, 2020.**

If you have any questions regarding this BL, please contact your assigned Finance Budget Analyst.

/s/ Keely Martin Bosler

KEELY MARTIN BOSLER
Director